

**COMMONWEALTH OF MASSACHUSETTS  
DEPARTMENT OF PUBLIC UTILITIES**

Proposal of the Cape Light Compact	)	
to Request Increased Funding for	)	
Residential Energy Efficiency Programs for 2008	)	DPU 07-47

**PROPOSAL OF THE CAPE LIGHT COMPACT SEEKING  
INCREASED FUNDING FOR RESIDENTIAL  
ENERGY EFFICIENCY PROGRAMS FOR 2008  
AND  
AMENDMENT TO THE APPROVED  
ENERGY EFFICIENCY PLAN: 2007 - 2012**

**I. INTRODUCTION**

**A. Overview**

1. The Cape Light Compact (the “Compact”) hereby submits to the Department of Public Utilities (the “Department” or the “DPU”) its proposal to increase spending for residential heating programs for the 2008 winter season (the “Proposal”).
2. On August 1, 2008 Hearing Officer Spruill issued a Memorandum regarding requests to increase funding for residential energy efficiency programs for the upcoming winter season (the “Memorandum”). The Memorandum set forth filing instructions for proposals. The Memorandum also established a comment procedure for public review of, and input on, program administrators’ (“PAs”) proposals. The Compact submits this Proposal in accordance with the August 1<sup>st</sup> Memorandum.
3. In addition, on August 7, 2008 the DPU issued a letter to all energy efficiency PAs directing them to file 2009 energy efficiency plans on or before December 1, 2008. According to the letter, the filing schedule is necessitated by the fact that the PAs will need to address increased program funding for this winter in their 2009 efficiency plans, and transition to provisions mandated by the Green Communities Act

(St. 2008, c. 169, §11 (G.L. c. 25, §21)), which require the filing of three-year energy efficiency plans by April 30, 2009 for program years 2010-2012.<sup>1</sup> Pursuant to the Department's letter of August 7<sup>th</sup>, the Compact will address increased program funding for the 2009 months of this winter season in its December 1<sup>st</sup> filing.

4. This Proposal, for increased 2008 winter program funding, is based directly on the Compact's currently existing and approved Energy Efficiency Plan: 2007-2012 (the "Plan"). This Proposal employs elements of the Plan for the specific purpose of allowing greater participation in residential heating programs for winter 2008, pursuant to direction from the DPU and the Department of Energy Resources (the "DOER").

**B. Background About the Compact**

5. The Compact is a governmental aggregator under G.L. c. 164, §134 and consists of the twenty-one towns in Barnstable and Dukes Counties, as well as the two counties themselves. It is organized through a formal Intergovernmental Agreement under G.L. c. 40, §4A. The Compact's Aggregation Plan was approved by the Department in DTE 00-47. The Compact maintains a business office within the Barnstable County offices located at the Superior Courthouse at 3195 Main Street in Barnstable, MA 02630.

6. The purposes of the Compact include, among other things, (1) to provide the basis for aggregation of all consumers on a non-discriminatory basis; (2) to acquire the best market rate for electricity supply and transparent pricing; (3) to provide sharing

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<sup>1</sup> Letter from Paul J. Hibbard, Chairman of the DPU, and Tim Woolf and W. Robert Keating, Commissioners of the DPU, to Energy Efficiency Service List (August 7, 2008).

of economic savings to consumers based on current electric rates and/or cost-of service ratemaking approved by the Department; (4) to provide full public accountability to consumers; and (5) to utilize and encourage demand side management and other forms of energy efficiency and to advance consumer awareness and adoption of a wide variety of energy efficiency measures through the implementation of an energy efficiency plan. See Compact Intergovernmental Agreement at Article I.

7. The Compact presently offers a competitive power supply option on an opt-out basis to over 200,000 customers, across all customer classes, who are located within the Compact's service territory. The Department approved the Compact's current form of universal service competitive electric supply agreement in DTE 04-32 (May 4, 2004), pursuant to which the Compact has entered into supply agreements with Consolidated Edison Solutions, Inc. The Compact also operates and administers its own Energy Efficiency Plan.

8. In its Final Order of April 6, 2001, the Department approved the Compact's original Energy Efficiency Plan. Final Order, April 6, 2001, DTE 00-47C ("Final Order"). In its Final Order, the Department found that the Compact was establishing a load aggregation program for purposes of Section 134(b) and that the Energy Efficiency Plan was consistent with state energy conservation goals. See Final Order, DTE 00-47C.

9. In its Order of October 23, 2003, the Department approved the Compact's Energy Efficiency Plan, Phase II, 2003-2007 ("Phase II Plan"). Order, October 23, 2003,

DTE 03-39.<sup>2</sup> In certifying the Phase II Plan, the Department found that the Compact was establishing a load aggregation program for purposes of Section 134(b), and that the revised Energy Efficiency Plan was consistent with state energy conservation goals. See October 23, 2003 Order, DTE 03-39.

10. The Department stamp-approved the Compact's Energy Efficiency Plan, Phase III, 2005-2007 ("Phase III Plan"), on November 8, 2005. See Stamp Approval, DTE 05-34.

11. The Department also stamp-approved the Compact's current Plan on December 24, 2007. See Stamp Approval, DPU 07-47. The current Plan is an outgrowth of the Compact's previous energy efficiency programs which the DPU had already approved.<sup>3</sup> The Plan provided for updates and amendments to the Plan as necessary to respond appropriately to market and regulatory developments as well as other changes in the Massachusetts energy efficiency industry.

### **C. Development of the Proposal**

12. On July 16, 2008, the MassSAVE/RCS Network<sup>4</sup> issued a letter to the DOER proposing actions to mitigate the negative impacts of expected high heating costs on residential customers whose incomes fall between 60-80% of the state median income.

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<sup>2</sup> The Department certified all but one of the Compact's programs. That program was the subject of a Motion for Reconsideration filed by the Compact on November 12, 2003 which the Department denied on October 20, 2004.

<sup>3</sup> The Compact's original Energy Efficiency Plan was filed with the Department in 00-47C, the Phase II Plan was filed with the Department in 03-39 and the Phase III Plan was filed with the Department in 05-34. The Compact's Energy Efficiency Plan: 2007-2012 was filed with the Department in 07-47. Upon request, the Compact will submit the prior and existing plans to the Department, or any other interested person.

<sup>4</sup> The MassSAVE/RCS Network is a coalition of electric and gas energy efficiency PAs in Massachusetts, including the Compact, who meet at least monthly and work to advance residential energy efficiency programs through the MassSAVE-branded program. See Letter from MassSAVE/RCS Networks to the DOER (July 16, 2008).

On July 31, 2008 the DOER issued a letter responding positively to the MassSAVE/RCS Network's proposals to mitigate the impacts of expected high heating costs on certain residential customers.<sup>5</sup>

13. Also on July 16, 2008 the DOER filed a letter with the DPU requesting consideration of "an immediate increase in the funding available this summer for residential energy efficiency audits and recommended energy efficiency measures administered through the ratepayer-funded efficiency programs."<sup>6</sup> In its letter, the DOER was particularly concerned with likely winter heating problems for many customers due to higher energy prices.

14. On July 25, 2008 the DPU issued a letter responding to the DOER's concerns and directing energy efficiency PAs to file proposals to increase spending for residential heating programs for the 2008 winter season. According to the DPU's letter, the proposals should include "revised 2008 program budgets that will allow for the implementation of the maximum achievable level of cost-effective expenditures on residential heating programs for the remainder of 2008."<sup>7</sup> In addition, the proposals should include:

- the energy efficiency programs that are targeted at residential heating end-uses;
- the additional dollars the company projects it can spend in a cost-effective manner;

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<sup>5</sup> Letter from Mike Sherman, Energy Efficiency Group Manager (DOER), to the MassSAVE/RCS Network (July 31, 2008).

<sup>6</sup> Letter from Philip Guidice, Commissioner of DOER, to Paul J. Hibbard, Chairman of the DPU, and Tim Woolf and W. Robert Keating, Commissioners of the DPU (July 16, 2008).

<sup>7</sup> Letter from Paul J. Hibbard, Chairman of the DPU, and Tim Woolf and W. Robert Keating, Commissioners of the DPU, to Energy Efficiency Service List (July 25, 2008).

- the constraints that limit the additional dollars the company projects it could spend cost-effectively;
- the additional number of residential customers that will be served;
- the additional kilowatt-hour, kilowatt, therms or mmbtu savings that will be achieved;
- the dollar savings on monthly bills that additional participants will be expected to realize;
- the effect on the cost-effectiveness of the applicable programs; and
- the company's proposed mechanism for recovery of incremental expenditures.

15. On July 29, 2008 the DPU held a technical conference to discuss issues and concerns regarding its request to increase funding for residential energy efficiency programs for winter 2008. Memorandum at p. 1.

16. This Proposal requests increasing funding for residential heating end-uses within the following programs:<sup>8</sup>

- Low Income Single Family
- Low Income Multi-family
- MassSAVE/RCS

Descriptions of each of these programs are attached as Appendix A.

17. The Compact projects it can spend an additional \$357,000 in a cost-effective manner, as illustrated in the Updated 2008 Program Budget table (attached as

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<sup>8</sup> The Compact is also planning on increasing public education and outreach efforts that underlie the delivery of all of the Compact's programs. However, this will not require any additional funding as the Compact plans to rely on existing and volunteer efforts.

Appendix B). The breakdown of these expenditures by budget category within each program is illustrated in the Updated 2008 Budget Detail table (attached as Appendix C).

18. The main constraint that limits the additional amount the Compact projects it could spend cost-effectively is the staffing ability of the Compact's vendors and qualified sub-contractors to ramp up the provision of services within the three to four month timeframe necessary to address the needs of residential customers for the upcoming winter season.

19. The Compact anticipates that the vast majority of increased funding will go directly to existing eligible program measures and does not anticipate that any substantial portion of the increased funding will go to administrative expenses, such as Compact staffing. However, the Compact emphasizes that this is likely only true for this filing and notes that it anticipates increased costs for administrative expenses in 2009.

20. Approximately 1,100 additional residential customers are anticipated to be served by the additional budget proposed, as estimated by the Compact's program delivery vendors.

21. All of the programs, including the proposed additional expenditures, are expected to save roughly 12,100,000 kWh per year, leading to a lifetime energy savings of roughly 114,400,000 kWh, and roughly 2,600 kW in annual summer demand savings, leading to a lifetime summer demand savings of roughly 31,900 kW. The updated total electric savings for 2008 is illustrated in the Updated 2008 Program Goals table (attached as Appendix D). All of the programs, including the proposed additional expenditures, are expected to save roughly 24,200 MMBtus.

22. The proposed additional expenditures are expected to save roughly

300,000 additional kWh per year, leading to an additional lifetime energy savings of roughly 4,400,000 kWh, and roughly 140 kW in additional annual summer demand savings, leading to an additional lifetime summer demand savings of roughly 2,760 kW. The proposed additional expenditures are expected to save roughly 5,700 additional MMBtus.

23. The dollar savings on monthly bills that additional participants will be expected to realize will be consistent with the dollar savings on monthly bills that all other program participants realize, typically a 20% savings. However, please note that actual savings will vary from this estimate based on the opportunity and level of investment. For example, a homeowner could see as much as 50% energy savings with the installation of air-sealing, insulation and a replacement of an inefficient heating system.

24. The Compact believes that its Proposal, and all of the individual programs it administers, are cost effective according to the DPU's total resource cost ("TRC") test. On average, all of the Compact's efficiency programs are estimated to have a benefit-cost ratio of approximately 3.20, taking into account capacity demand-response-induced price effects. The cost-effectiveness of the programs, including the effects of the proposed additional expenditures, is illustrated in the Updated 2008 Benefit-Cost Analysis table (attached as Appendix E). The benefits of the programs, including the effects of the proposed additional expenditures, are illustrated in the Updated 2008 Benefit Detail table (attached as Appendix F)<sup>9</sup>.

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<sup>9</sup> The cost-effectiveness updates reflect more than the impact of the incremental expenditures. They also reflect updates to certain parameters as part of the 2008 program planning cycle coordinated among all the  
*Footnote continued on next page.*



25. The Compact's proposed mechanism for recovery of incremental expenditures is two-fold and includes: (i) a fully reconciling funding mechanism administered by NSTAR, to become effective January 1, 2009, if approved by the Department; and (ii) pre-approval of interim "overspending" through short-term borrowing at the government bond rate, if required; such interim "overspending" to be recouped as program costs in the 2009 energy efficiency plan filing.

26. The recently amended G.L. c. 25, §21 (St. 2008, c. 169, §11) envisions a joint electric efficiency investment plan for electric distribution companies and municipal aggregators. The plan elements include "a fully reconciling funding mechanism which may include, but which shall not be limited to, the charge authorized by [G.L. c. 25, §19]." G.L. c. 25, §21(b)(2). In addition, section 21 states that the DPU "shall approve a fully reconciling funding mechanism for the approved plan and, in the case of municipal aggregators, a fully reconciling funding mechanism that requires coordination between the distribution company and municipal aggregator to ensure that program costs are collected, allocated and distributed in a cost-effective, fair and equitable manner." G.L. c. 25, §21(d)(2).

27. Currently, the Compact and NSTAR are parties to an Energy Efficiency Plan Operating Agreement which allows NSTAR to collect energy efficiency funds through a system benefits charge in distribution rates on behalf of the Compact and transfer those funds to the Compact for the Compact's energy efficiency programs.

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PAs, including: updates to avoided energy supply costs during 2008 planning, implementation of common assumptions agreed to by all PAs for many measure lives, impact factors, energy and demand savings and non-electric benefits, and evaluation updates to specific assumptions based on reports that became  
*Footnote continued on next page.*

28. NSTAR proposes to collect the increased funding for its winter 2008 proposal through an adjustment to the distribution charge to become effective January 1, 2009. The Compact has coordinated with NSTAR on the details of the proposed reconciling funding mechanism.

29. The Compact supports NSTAR's proposal to collect increased funding through an adjustment to the distribution charge. The Compact believes that such a funding mechanism is the type of mechanism contemplated by the recent legislation. Putting such a funding mechanism into effect in anticipation of the 2008 winter season and joint electric efficiency investment plan will meet current needs as well as facilitate future coordination.

30. If the Department approves NSTAR's proposal to collect increased funding through an adjustment to the distribution charge, the Compact and NSTAR will coordinate the allocation and distribution of increased funding. The Compact and NSTAR will coordinate pursuant to the provisions of the Green Communities Act regarding the fully reconciling funding mechanism, their existing Operating Agreement and any amendments required thereto.

31. The Compact is in a unique situation relative to other PAs. As noted above, NSTAR collects energy efficiency funds on behalf of the Compact and transfers those funds to the Compact for the Compact's energy efficiency programs. If the Department approves the reconciling mechanism proposed by NSTAR, funds will not be collected and distributed until 2009. In the interim, the Compact will be required to

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available after the EEP: 2007-2012 plan was approved. Additionally, the Compact recently reallocated funds to a solar water heating pilot and allocated funds carried over from 2007 across all programs.

“overspend” in order to fund the expansion of programs set forth in this Proposal. Such “overspending” may require short-term borrowing on the part of the Compact. The Compact requests Department pre-approval of interim “overspending.” If necessary, the Compact will meet its increased budget needs through short-term borrowing at the government bond rate. However, like any other utility program administrator, the Compact must be made whole for its program costs. The Compact requests that it be made whole for all costs (interest, fees and other transaction costs) associated with any short-term borrowing required under this Proposal. Therefore, the Compact requests that such interim “overspending” and any related costs be pre-approved for inclusion as program costs in the 2009 energy efficiency plan filing.<sup>10</sup>

32. The Compact is an active participant in the ISO New England Forward Capacity Market (the “FCM”) and receives FCM revenues. Also, it is the Compact’s understanding that there will be future allocations of funds from the Regional Greenhouse Gas Initiative (“RGGI”). However neither of these funding sources is expected to be available for the funding increases requested in this Proposal. The Compact expects that FCM revenues received through December 31, 2008 will pay for administrative costs related to participation in the FCM and be allocated to compensate for a projected reduction in ratepayer system benefits charge revenues due to reduced electricity sales in 2008.<sup>11</sup> The Compact understands that RGGI auctions are scheduled

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<sup>10</sup> For purposes of illustration, should the Compact require a short-term loan of \$175,000 for a 3-month term at the short-term government bond rate of 2.55% per annum (as of August 11, 2008), the program costs related to the interest on that short-term loan that would be included in the 2009 energy efficiency program budget would be approximately \$1,116.

<sup>11</sup> Electricity usage on Cape Cod and Martha’s Vineyard for the first and second quarters of 2008 is approximately 2.5% lower than the same periods in 2007. The Compact estimates a shortfall of about \$169,000 of projected energy efficiency revenues if this electricity usage reduction continues throughout

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for September and December of 2008 and that the distribution of any RGGI funds to PAs will be available for 2009 program planning.

33. In the June 29<sup>th</sup> technical conference parties discussed the equities of increasing funding for residential customers for 2008 winter programs without providing corresponding benefits to commercial and industrial (“C&I”) customers. The Compact is sensitive to the needs of all of its customers and plans on working with its C&I program vendors to address needs specific to C&I customers in 2009. The Compact’s 2009 proposal may include a higher percentage of funding for C&I programs.

34. The Compact consulted with other PAs, DOER staff and local community advocates throughout the development of this Proposal.

35. The Energy Efficiency Committee of the Compact Governing Board reviewed and unanimously approved the attached Energy Efficiency Plan Update (Appendix A) on August 13, 2008.

## **II. OVERVIEW OF THE FILING**

36. The Compact is submitting the following documents with this Proposal:

Appendix A: Descriptions of Programs Utilizing Proposed Increased Funding

Appendix B: Updated 2008 Program Budget

Appendix C: Updated 2008 Budget Detail

Appendix D: Updated 2008 Program Goals

Appendix E: Updated 2008 Benefit - Cost Analysis

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2008. Due to this projected shortfall, the Compact plans on using available FCM proceeds to fulfill existing 2008 program commitments.

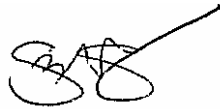
Appendix F: Updated 2008 Benefit Detail (including benefits from capacity demand-response-induced price effects only)

**III. PRAYERS FOR RELIEF**

37. Wherefore, the Compact respectfully requests that the DPU approve its Proposal for increased funding for residential energy efficiency programs for winter 2008.

Respectfully submitted,  
THE CAPE LIGHT COMPACT

By its attorneys,



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